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# AGRICULTURAL COOPERATION

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Legal, Economic and Organization Information  
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United States Department of Agriculture  
Washington, D. C.

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## LIABILITY OF COOPERATIVE ASSOCIATIONS FOR FEDERAL INCOME TAXES

The Secretary of Agriculture of the United States has received from the Secretary of the Treasury, in response to a specific request, a communication regarding the liability of cooperative associations for Federal income taxes. Under the Federal income tax statute of 1921, cooperative associations which comply with certain conditions are exempt from the tax. The nature of such exempt associations is stated generally in paragraph 11, section 231, of the Act, and in article 522 of Regulation 62, issued by the Treasury Department. Article 522 reads as follows:

Cooperative associations. - (a) Cooperative associations acting as sales agents for farmers, fruit growers, dairymen, etc., and turning back to them the proceeds of the sales, less the necessary selling expenses, on the basis of the produce furnished by them, are exempt from income tax. Thus cooperative dairy companies, which are engaged in collecting milk and disposing of it or the products thereof and distributing the proceeds, less necessary operating expenses, among their members upon the basis of the quantity of milk or butter fat in the milk furnished by such members, are exempt from the tax. If the proceeds of the business are distributed in any other way than on such a proportionate basis, or if the association deducts more than necessary selling expenses, it does not meet the requirements of the statute and is not exempt. The maintenance of a reasonable reserve for depreciation or possible losses or a reserve required by State statute will not necessarily destroy the exemption. A corporation organized to act as a sales agent for farmers and having a capital stock on which it pays a fixed dividend amounting to the legal rate of interest, all of the capital stock being owned by such farmers, will not for that reason be denied exemption.

(b) Cooperative associations organized and operated as purchasing agents for farmers, fruit growers, dairymen, etc., for the purchase of buying supplies and equipment for the use of members and turning over such supplies and equipment to members at actual cost, plus necessary expenses, are also exempt. In order to be exempt under either (a) or (b) an association must establish that it has no net income for its own account. An association acting both as a sales and a purchasing agent is exempt if as to each of its functions it meets the requirement of the statute.

From the Act, the regulations and the letter of the Secretary the following deductions have been made:

(a) If an organization qualifies as a member of the exempt class, no part of its income is subject to Federal income tax.

(b) If a farmers' cooperative sales or purchasing association, which is otherwise exempt, does business for non-members, and deals with such non-members upon the same terms as it deals with its members, including the payment to non-members of patronage dividends on the same terms as members, such an association is exempt from Federal income tax.

(c) "The maintenance of a reasonable reserve for depreciation or possible loss or a reserve required by State statute will not necessarily destroy the exemption," nor will the payment of "a fixed dividend amounting to the legal rate of interest," provided that all the capital stock of the association is owned by farmers, destroy the exemption.

(d) If an association which is not exempt returns sums of money to its members as patronage dividends, such sums being simply refunds on the amount of business furnished by each member, and also makes profits on the business done for non-members which it retains for reserves or surplus, or distributes among its members, such profits are taxable, and in addition all sums derived from the business of members which are also set aside as reserves or surplus are taxable.

(e) In the case of an association which is not exempt, all net income is taxable. It is apparent that sums received in the form of income from business done for members or non-members and which are set aside as surplus or reserves are taxable, not because such sums have been so set aside, but because they were received as income.

Even though an association is not in the exempt class, it does not necessarily follow that it would be required to pay an income tax. This would depend upon whether or not it had net taxable income.

Special attention is called to the fact that under the regulations of the Treasury Department it is necessary for each association



to submit the matter of its eligibility for exemption to the Collector of Internal Revenue in its district. Copies of the letter of the Secretary of the Treasury may be obtained from the Bureau of Agricultural Economics, Washington, D. C.

L. S. Hulbert.

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#### A COOPERATIVE CREAMERY WITH NEARLY A THOUSAND PATRONS

One of the largest cooperative creamery organizations in the United States, is the claim made by J. R. Murphy, Manager of the Danish Creamery Association, Fresno, California, in his last annual report to the stockholders. The association has nearly one thousand patrons scattered over a territory that is fifty miles wide by one hundred miles long. Twenty-five trucks are required to haul the cream to the two plants. More than 8,000 pounds of butter are made daily and, as every pound brings a premium of one cent because of the "Danish Creamery" brand under which it is sold, the "velvet" amounts to more than \$80 a day for a year of 365 days -- \$30,000 a year. Not only do the Danish Creamery patrons get the one cent a pound premium but they get a royalty of 65¢ a thousand pounds on high grade butter manufactured by affiliated creameries and sold through a central marketing agency under the Danish Creamery brand. The association was organized in 1895 and the same butter maker has been employed for seventeen years.

The Danish Creamery Association in cooperation with six other cooperative creameries has established a central selling agency in Los Angeles. This agency is incorporated as the Challenge Cream and Butter Association. During 1921 it sold 6,352,492 pounds of butter for \$3,653,176.09. This was an increase of 50% in quantity handled over 1920. The cost of selling was reduced from 1.8¢ a pound in 1920 to 1.5¢ for 1921. More than one-third of the creamery butter used in Los Angeles in 1921 was handled by this association. The selling agency maintains an efficiency man to work with the cooperating creameries. The total expense of operating the selling agency during 1921 was but 2.855% of the sales.

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#### A PUBLICATION IN THE INTERESTS OF COOPERATIVE LIVE-STOCK MARKETING

"The News" is the title of a four-page publication being issued by the National Live-Stock Producers' Association, 608 South Dearborn Street, Chicago, Ill. "The News" is printed upon the same yellow paper as is used for the stationery of the Producers' Commission Association. Among the features of the publication is a series of articles regarding the agricultural colleges in the territories served by the live-stock producers' commission associations operating at the stock yards at Chicago, Peoria, East St. Louis and Indianapolis.

## PERMANENT OFFICERS FOR NATIONAL MARKETING ASSOCIATION

Permanent officers for the Federated Fruit and Vegetable Growers were elected at a meeting of the directors in New York City in October. These officers are: President, J. S. Edwards, East Highlands, Calif., President, Gold Buckle Association; First Vice-President, E. P. Porcher, Deerfield, Fla., grower and shipper; Second Vice-President, W. B. Armstrong, Yakima, Wash., President, Washington Farm Bureau Federation; Secretary, C. E. Durst, 608 South Dearborn St., Chicago, Ill., Director, Department of Fruit and Vegetable Marketing, Illinois Agricultural Association; Treasurer, Alexander M. White, Seabrook, N. J., chief owner of Seabrook Farms. Executive Committee: James Nicol, South Haven, Mich., fruit grower and President, Michigan State Farm Bureau Federation; E. P. Porcher, Deerfield, Fla.; W. R. Peet, Rochester, N. Y., General Manager, Western New York Fruit Growers' Cooperative Packing Association, Inc.; H. W. Jeffers of New Jersey. Arthur R. Rule, formerly General Manager of the North American Fruit Exchange, has been selected as manager.

Membership in the organization will be open to cooperative fruit and vegetable shipping associations. The first application for membership was made by the South Haven Fruit Exchange of which Mr. Nicol has been an active officer.

An office for organization and field service will be opened soon in Chicago, and on January first the new association will take over the New York City office and the business of the North American Fruit Exchange.

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## ORGANIZATION OF CONNECTICUT VALLEY TOBACCO ASSOCIATION COMPLETED

The organization of the Connecticut Valley Tobacco Association, Hartford, Conn., has been completed with the selection of the following officers: President, J. W. Alsop; Vice-President, T. N. Warner; Treasurer, E. E. King; Manager, Fred B. Griffin. This non-stock, non-profit organization is made up of the growers of more than three-fourths of the total stalk acreage in Connecticut and Massachusetts. Each member has signed an agreement to sell to the association his tobacco crops for the five years, 1922-1926.

Provision is made in the plan of organization of the association for the formation of 21 local branches, each representing a district which may have officers of its own. Each district has one representative on the board of directors. The public is represented by three directors, two appointed by the president of the Connecticut Agricultural College and one by the president of the Massachusetts Agricultural College. It is mandatory upon the board of directors to appoint an executive committee of five directors to conduct the affairs of the association, subject to the general control of the board. The activities of the association are limited to the marketing of tobacco and tobacco products for its members.

## COTTON GROWERS ISSUE FOLDER ON COOPERATIVE MARKETING

A twenty-four page folder entitled "Commodity Cooperative Marketing," was issued in October by the Department of Information of the American Cotton Growers' Exchange, Dallas, Tex. The folder is "A handbook of information for cooperative field workers, officers and employees of cooperative marketing associations, and for the information of bankers, business men, and the general public." On the last page it is stated that, "Cooperative marketing in America is a wide-spread economic movement for marketing reform that is destined to effect more vitally the financial status of more people for the better than any other single factor that has come to light in the history of agriculture."

Under the heading, "Results Accomplished by Cooperative Marketing," a number of the largest associations are mentioned. The list includes the Oklahoma Cotton Growers' Association, Arizona Pima cotton Growers, American Cotton Growers' Exchange, Burley Tobacco Association, Tobacco Growers' Cooperative Association of Virginia, Connecticut Valley Tobacco Growers, California Raisin Growers, California Almond Growers, California Fruit Growers' Exchange, Pacific Egg Producers.

Half-tone cuts of three of the officers of the American Cotton Growers' Exchange illustrate the folder, - Carl Williams, President; Aaron Sapiro, Counsel; C. O. Moser, Secretary-Treasurer. The Exchange has sales offices at Atlanta, Ga.; Charlotte and Greenville, N. C.; Spartanburg, S. C.; Boston, Mass.; Bremen, Liverpool, and Havre. It also has representatives at Barcelona, Rotterdam and Copenhagen.

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## BULLETIN REGARDING COOPERATIVE MILK-DISTRIBUTING PLANTS

"Producers' Cooperative Milk-Distributing Plants" is the title of Department Bulletin No. 1095, issued under date of October 12, by the United States Department of Agriculture. Among the subjects considered in the publication are the following: Essentials for success; Marketing contracts; Methods of financing; Management of milk-distributing plants; Selecting a manager; and Cost of milk distribution. Six of the essentials for success given are: Sufficient volume of business to make economical operation possible; efficient management; a conviction on the part of members that working together will benefit each individually; adequate capital; a determination to maintain a high standard for products handled; a sound business policy. Suggestions are made for an adequate accounting system.



### RAILROAD EQUIPS CAR FOR HOLDING COOPERATIVE MEETINGS

The Baltimore and Ohio Railroad is helping the Maryland State Poultry Association, Inc., Westminster, Md., to work out a program for marketing eggs. This association has undertaken the task of developing marketing units for the different sections of the State and of providing selling agencies in New York City, Philadelphia, Washington and Baltimore. Marketing Unit No. 1 is now being developed to provide an outlet for the eggs of Carroll, Frederick, Howard and Baltimore Counties. The railroad is helping the cooperative movement by agreeing to place at the disposal of the organization committee a car equipped for holding meetings, and to haul the car over its lines in Maryland.

The organization committee is now planning a schedule for meetings and arranging a list of speakers. The Extension Service of the Maryland Agricultural College is to be called upon for specialists informed regarding approved egg-marketing practices, while the organization committee will supply speakers for the "sign-up" talks.

The State association has already entered into an agreement with the New Jersey Poultry Producers' Association, which eventually will result in Maryland eggs being put upon the New York City market under a special brand name. Already eggs are being collected, graded and candled and put upon the Baltimore market at a gain of 9¢ a dozen to the producer.

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### NATION- WIDE MEETING OF COOPERATIVE ASSOCIATIONS ANNOUNCED

The first annual convention of the National Council of Farmers' Cooperative Marketing Associations is announced for December 14, 15 and 16, at the New Willard Hotel, Washington, D. C.

Arrangements for this convention are being made by a committee of fourteen prominent leaders in the agricultural movement. Judge Robert W. Bingham, Louisville, Ky., representing the tobacco associations, is chairman, and Carl Williams, Oklahoma City, Okla., President of the American Cotton Growers' Exchange, is vice-chairman. Among the committeemen are: Aaron Sapiro, San Francisco, Calif.; George C. Jewett, Portland, Ore., Manager, Northwestern Wheat Growers' Association; Charles C. Teague, Santa Paula, Calif., President, California Fruit Growers' Exchange; Milo C. Campbell, Coldwater, Mich., President, National Milk Producers' Federation; C. O. Moser, Dallas, Tex., Secretary, American Cotton Growers' Exchange; Hon. Manning Dougherty, Toronto, Can., Minister of Agriculture; J. H. Barber, San Francisco, Calif., Manager, Central California Poultry Producers.

Headquarters have already been established in Room 122 of the Willard Hotel, by the Secretary of the Committee, Charles R. Morgan of Dallas, Tex., who is also field representative of the American Cotton Growers' Exchange.



## DENMARK'S COOPERATIVE DAIRIES

According to the "Denmarks Mejeri-Drifts-Statistik," a Danish statistical organization, the number of cooperative dairies in Denmark at the present time is 1335. There are in addition 326 dairies which are privately operated. Cooperative dairies, therefore, comprise 30% of the total number, and in 1921 handled 2.9 million tons of milk out of a total milk production for the kingdom of 3.2 million tons, or 90.7% of the total. The average dairy has about 150 members, and from 800 to 1000 cows.

The Danish cooperative dairies are organized, as a rule, on the following principles:

1. All members are jointly and severally liable for the obligations of their organization.
2. The proceeds are divided in proportion to the quantity of milk delivered by each member.
3. Membership is open to all milk producers in the territory, without advance payments of any kind.
4. The members are obligated to deliver all the milk they produce, except what they require for household use.

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## U. S. GRAIN GROWERS, INC., BEGINS HANDLING GRAIN

The U. S. Grain Growers' Sales Company of Minneapolis, the first of the proposed selling units of the U. S. Grain Growers, Inc., began business October 11, the application of the Sales Company for a seat on the Minneapolis Chamber of Commerce having been approved the preceding day. The first sale consisted of two cars of wheat from North Dakota. The Sales Company is incorporated under the laws of Minnesota with an initial capital stock of \$25,000, fully paid up. Its officers are: President, J. F. Reed, President of the Minnesota State Farm Bureau Federation; Vice-President, A. F. Nelson; Treasurer, Thomas E. Cashman, Director, Minnesota State Farm Bureau Federation; Secretary and Manager, T. H. Hagen, a Minnesota farmer who has had 25 years experience in the grain business at Minneapolis and Duluth. The new company proposes, so far as possible, to handle grain direct from country elevators to millers and exporters.

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## FIFTH TERMINAL LIVE-STOCK COMMISSION ASSOCIATION

The Buffalo (N. Y.) unit of the Producers' Live-Stock Commission Associations opened its doors for business the last week in October. This makes the fifth terminal live-stock market entered by the farmers' commission associations.

### MINNESOTA POTATO EXCHANGE REORGANIZED

The Minnesota Potato Exchange was reorganized during the months just preceding the opening of the 1922 shipping season. The results of the reorganization were a reduction in overhead expense, and the adoption of a plan whereby the managers of the locals assist the Exchange sales manager by making sales on track at local stations.

The Exchange is made up of local associations which have each purchased one share of stock at \$100. It is supported by a charge of 10¢ per cwt. on potatoes sold through the Exchange and 3¢ per cwt. on sales by local managers. The 10¢ is divided, 7¢ being set aside for sales expenses, 2¢ for an adjustment fund, and 1¢ for educational purposes. The 3¢ is used to maintain the market information service, provide an outlet for potatoes when the local managers are unable to make sales, and to conduct research and educational work.

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### A CONSUMERS' COOPERATIVE MILK-DISTRIBUTING PLANT

For the opening of the No. 2 plant of the Franklin Cooperative Creamery Association of Minneapolis, on October 21, a rather elaborate program, extending through the afternoon and evening, was prepared.

This association is a development in the field of consumer co-operation. It was formed by 350 dairy workers who were on strike, and by 1650 consumers. A model plant with modern equipment and a capacity of 3,000 quarts per hour was erected. Business began on March 12, 1921. By the close of the calendar year sales amounting to nearly \$350,000 had been made, upon which were net earnings amounting to over \$37,000. During the first nine months of 1922 the sales were \$1,185,630 and the net earnings \$33,412.17. The number of consumer patrons is now many times the original 1650.

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### A NEW BULLETIN ON COOPERATIVE MARKETING

The problems and difficulties which the newly organized Vermont Maple Products Cooperative Exchange, Inc., is likely to encounter, are discussed in a bulletin just issued by the Experiment Station of the University of Vermont, Burlington, Vt. The bulletin, which is entitled "Marketing Vermont Maple-Sap Products," was prepared by A. W. McKay, Specialist in Market Extension, Federal Bureau of Agricultural Economics. The publication, in addition to data regarding the maple-sap industry, contains suggested articles of association and by-laws for local associations formed under the Vermont statutes.

#### FOUR ARTICLES ON COOPERATIVE COTTON MARKETING

Four articles on cooperative marketing of cotton by four well-known Southern men, are the outstanding feature of the Annual Cotton Crop Number of Commerce and Finance, issued September 13, 1922. John M. Parker, Governor of Louisiana, writes on "The Time is Ripe for Cooperation;" Clarence Ousley, former Assistant Secretary of Agriculture, discusses "The Future of Cooperative Cotton Marketing;" J. M. French, of Springfield, Tenn., takes for his subject, "Ultimate Perfection in Agricultural Cooperatives;" and Sloan Simpson, Trustee and Treasurer, Texas Farm Bureau Cotton Association, tells "How Cooperation is Working in Texas."

Governor Parker believes that times have changed for the cotton farmers; that with almost a monopoly of the world's supply the producers can "for the first time in history make the marketing of cotton a science...."

Mr. Ousley believes that cooperative cotton marketing will succeed ultimately, but "It must make the same fight that all economic reform has made against prejudice, skepticism and self-interest." He considers cotton well adapted to cooperative marketing; its standards are well established; it is always salable and it does not deteriorate in quality when protected. The difficulty of dealing with many growers inexperienced in business, and various credit difficulties, are problems which must be solved. Cooperative marketing of cotton "is addressed primarily to the saving of waste, and waste is loss to the whole world."

Mr. French sees in cooperative marketing the farmers' part in "a broad movement....having as its ultimate goal the redistribution of wealth." He believes cooperative marketing is adapted to citrus fruit and other semi-perishable products which are not produced in quantities sufficient to supply the demand. He is not optimistic regarding its value in the marketing of perishable products and staple non-perishable products, such as wheat, cotton, and tobacco. General marketing and financial difficulties, he believes, are practically insurmountable. The solution he offers is the adoption of more business-like practices and the restriction of production to probable market requirements.

Mr. Simpson describes the plan of operation of some of the successful cooperative marketing associations of California and quotes several laws which have been developed from their experience. He tells how, aided by the banks and by the War Finance Corporation, Texas cotton was marketed successfully in 1921, through an "organization owned by farmers, officered by farmers, and operated by farmers."



## CALIFORNIA CITRUS ASSOCIATIONS

Interesting information regarding the organization of local associations shipping oranges and lemons through the California Fruit Growers' Exchange, is contained in reports received from 47 such locals. Of these associations, 27 are organized with capital stock and 20 are non-stock enterprises.

The number of members and the acreage owned by them is reported by 45 associations. These 45 associations have a total membership of 4,296, averaging a little more than 95 each, and control a total of 39,105 acres of oranges, lemons and grapefruit, or an average of 869 acres. The membership of the associations varies from 2 to 340, and the number of acres from 61 to 2,200.

A season's pool for oranges is favored by about one-third of the associations reporting, while about as many more make from two to three pools each season. A monthly pool is reported by three associations, and two pool semi-monthly. For lemons, either a season's pool, or a pool for each pick, is preferred. Out of 40 associations reporting, 15 conduct non-marketing activities, such as pruning, spraying, or fumigating for their members; 25 do not.

Eighteen of the 27 capital stock associations distribute stock to their members on an acreage basis, the average amount paid by the members for the stock of their association being approximately \$34.40 per acre. An investment of \$50 per acre is most common, 5 of the 18 associations reporting this figure. Other methods of allocating stock investment are on the basis of "\$10 per 10 trees;" "\$1.00 per 1,000 lbs. of fruit shipped;" "\$10 per 20 lemon trees, 40 orange trees;" and "10¢ per packed box."

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## COOPERATIVE PRODUCTION

Under the name of the Orchard Operating Company, a number of resident and non-resident growers own and operate cooperatively 600 acres of lemon grove at Chula Vista, Calif. Each member's grove is a distinct unit, generally five or ten acres in extent, but all equipment is owned jointly and production operations are under the direction of a general superintendent employed by the company. The Orchard Operating Company is a member of the Chula Vista Citrus Association, Chula Vista, Calif., and this association is affiliated with the California Fruit Growers' Exchange.

## NEW BULLETIN DESCRIBES LEGAL PHASES OF COOPERATIVE ASSOCIATIONS

"The Legal Phases of Cooperative Associations" is the title of a new bulletin, No. 1106, issued by the United States Department of Agriculture, in which a special effort has been made by the author, L. S. Hulbert, to explain legal questions concerning cooperative business.

Some of the subjects treated are: The elements and characteristics of incorporated associations or corporations; how they are formed; the nature of a charter; the liability of an association for promotion expenses; the responsibilities and liabilities of officers, directors and members of such associations; the right of an association to restrict the transfer of its stock; the legal effect of an attempt to limit the amount of indebtedness which an association may incur; and the difference between stock and non-stock associations. The nature and characteristics of contracts entered into by cooperative associations are discussed, including liquidated damages, penalties, the right of an association to pool the products of its members and to determine the grade of the products handled, and the right of an association to an injunction to restrain a member from breaching his contract with the association, as well as its right to a decree for specific performance thereof.

The decisions of courts of last resort have been examined and the principles applied and announced in these decisions are set forth.

Unincorporated associations, monopolies, and liability for income taxes are also discussed, as is also the Capper-Volstead Act, authorizing the organization of cooperative associations for marketing farm produce.

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## A NEW COOPERATIVE ASSOCIATION FOR MARKETING RICE

The Louisiana Farm Bureau Rice Growers' Cooperative Association, Crowley, Louisiana, organized September 12, expects to handle 1,000,000 bags of rice for its members this season. A cleaning mill with a capacity of 2,000 barrels a day has been leased, also a warehouse with a storage capacity of 150,000 bags. The mill will be operated exclusively for the members. The cleaned rice will be sold and the bran will be sold or returned at the option of individual members. The Association makes a charge of 40¢ a barrel for milling rough rice and advances 60% of the value of the rice to its members.

## STATISTICS REGARDING COOPERATION IN IOWA

Business to the amount of nearly \$58,000,000 was done in 1921 by 435 farmers' cooperative buying and selling associations in Iowa, according to data recently collected by the Federal Bureau of Agricultural Economics. Of the 435 associations, 150 handled grain, 121 dairy products, and 119 live stock. The amount of business done by the grain associations in 1921 was over \$27,700,000. The associations handling dairy products did business amounting to over \$11,500,000, and the live-stock shipping associations over \$15,300,000.

In the case of 68 Iowa associations the figures giving the amount of business done in 1913 are available for comparison with those of 1921. The 1913 total is \$3,344,000 and the 1921 is \$9,388,000. This is an increase of 12-1/2%. In 1914, 79 of the associations did business to the amount of \$9,736,000. The same associations in 1921 did business to the amount of \$12,184,000, a gain of 25.1%. The price level for farm products in 1921 was about 10% above the price level of 1913.

Of 512 associations for which figures have been tabulated, 363 are incorporated, 301 have capital stock, 247 are composed only of producers, and 256 pay patronage dividends. Over 86% of the business done by the associations reporting for 1921 was done by those incorporated.

Forty-eight of the grain handling associations also shipped live stock, and 24 also handled seeds.

Practically all of the 512 associations do cooperative purchasing. The different lines of commodities purchased and the number of associations purchasing for each line, are as follows: building material, 85; containers (barrels, boxes, crates, baskets, sacks, etc.), 342; feeds, 162; fencing, 301; fertilizers, 194; fuel, 229; hardware, 254; implements, 285; seeds, 162; spraying material, 424.

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## MELON ASSOCIATION SHIPS 800 CARS FIRST SEASON

Although organized as late as March 23 of this year the Alabama Farm Bureau Watermelon Association, Montgomery, Alabama, shipped 800 cars the past season. The association is incorporated under the laws of Alabama and has 1022 members who in the past season controlled 6,655 acres of melons located in central and southern Alabama and in Florida. The association operated upon a fixed charge per car. Returns to growers were made on the basis of monthly pools with size and quality of melons as the most important factors.